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C O N F I D E N T I A L KUWAIT 001003

SIPDIS

DEPARTMENT FOR NEA/ARP

E.O. 12958: DECL: 10/19/2019  
TAGS: MARR EPET PREL KU  
SUBJECT: KUWAIT CHARGING FULL PRICE FOR JET FUEL

REF: A. KUWAIT 565  
1B. KUWAIT 477

Classified By: Economic Counselor Oliver John for reasons 1.4 (b & d).

11. (C) As part of our review of potential outstanding issues for the -- now postponed -- Joint Military Commission, Post wants to follow-up on reftels (particularly Ref A request for guidance to which a response was never received) and provide an update on the status of Kuwaiti fuel allocations for the U.S. military. In addition to the fuel provided free under the terms of the Defense Cooperation Agreement, Kuwait had previously allocated 860,000 gallons per day of subsidized JA1 jet fuel to the U.S. military and additional fuel at market price.

12. (C) The agreement to provide subsidized jet fuel expired in the end of December 2008 and the GoK subsequently notified the USG that it intended to suspend the subsidy for the next six-month period (January 1, 2009 through June 30). Post understands that DESC has been paying market price for Kuwaiti jet fuel supplied in 2009 (resulting in an increase of costs of about \$59.4 million from January to August). On October 1, the Kuwait Petroleum Corporation formally notified DESC that the Kuwaiti cabinet issued a resolution pricing JA1 jet fuel at "the market prevailing price" for the follow-on period from July 1 through December 31.

13. (C) In ref A, Post provided suggested talking points requesting a continuation of the subsidies until the withdrawal of U.S. combat forces from Iraq and sought interagency concurrence on this suggested approach. Ambassador, unaware that the bills had been paid in full, asserted this position informally with the GoK, most recently in a meeting with MFA U/S Al-Jarallah two weeks ago. Regrettably, as the non-discounted bills have already been paid for the first six-month period of 2009, Post believes it would be impossible to seek a subsidy retroactively, and would also be very difficult to roll back the pricing going forward. However, given the sharp fall in the price of fuel from its height in 2008, the current difference between subsidized and fair market prices is limited and the consequent value of the previous Kuwaiti subsidy much less. Post notes that Kuwait continues to provide free fuel as previously under its Defense Cooperation Agreement obligations.

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